Public Service Management Pension Plan Board

Annual Report
1987

Alberta

89-01658/

Alberta
PUBLIC SERVICE MANAGEMENT PENSION PLAN BOARD
1203, Legislature Annex, 9718 - 107 Street, Edmonton, Alberta, Canada T5K 1E4 403/427 - 7105

August , 1988

The Honourable Dick Johnston
Provincial Treasurer

Sir:

I have the honour to submit to you the second annual report of the Public Service Management Pension Plan Board for the period January 1, 1987 to December 31, 1987. The report outlines the role and responsibilities of the Public Service Management Pension Plan Board and the activities undertaken during the period under review.

Respectfully submitted,

J. E. Faries
Chairman

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Introduction

The calendar year 1987 is the second full year of operation of the Public Service Management Pension Plan Board, which was established effective November 1, 1985 under the Public Service Management Pension Plan Act.

The main responsibilities of the Board are to hear appeals of administrative decisions made on pensions, and to advise the Minister responsible for public service pensions on matters relating to the Plan.

The Honourable Dick Johnston, Provincial Treasurer, is the Minister responsible for public service pensions. The day-to-day administration of the Plan is conducted by Payroll and Pensions Division of Alberta Treasury.

In February 1987, the Minister met with the Board and the boards of the five other government administered and guaranteed pension plans. Mr. Johnston discussed the funding and policy review of the plans being undertaken by his department. He invited advice from the boards, and stated that the boards will be asked to comment on any proposals which may be developed.

The Board

Members

The Act provides that the Board shall consist of not fewer than five persons appointed by the Lieutenant Governor in Council, one of whom is appointed from among participants.

Two members left the Board during 1987. Both members had also served under the former Board established under the Public Service Management Pension Act which was in effect prior to November 1985. Dr. A. O. Olson served from July 1982 to his resignation effective January 8, 1987. Mr. D. Harford served from January 1980 to the completion of his term on April 1, 1987. The Board acknowledges the excellent contribution of both to this Board and to the former Board.

Terms of members with expiry date of April 1, 1987 were extended to April 1, 1991.

Brief biographies of members are provided on the following page.

Public Service Management Pension Plan Board Members

as at December 31, 1987

J. E. Faries

Mr. Faries brings to the Board considerable background in pension policy and administration. He served over fifteen years as Director of the Pension Administration until December 31, 1979. Currently he holds several senior positions on other boards and community organizations. Mr. Faries is Chairman of the Board. His term of office expires April 1, 1988.

A. F. (Chip) Collins

Mr. Collins served as Deputy Provincial Treasurer from 1972 until his retirement in 1984. He brings to the Board extensive financial and administrative experience as well as senior public service experience. Mr. Collins, the government representative is Vice-Chairman of the Board. His term expires April 1, 1991.

B. Black

Mr. Black commenced his career in the Manitoba Civil Service Commission. In 1979 he joined the Personnel Administration Office of the Alberta Government where he has gained extensive experience in the personnel and pay and benefits fields. Currently he is Executive Director of the Management Programs Division. His term expires on Apirl 1, 1991.

T. Forgrave

Mr. Forgrave was appointed to the Board on January 8, 1987. He received his undergraduate and graduate education at the Universities of Western Ontario and Toronto. An ordained minister of the United Church of Canada, he has held various positions with the City of Edmonton. He is currently Assistant Deputy Minister, Municipal Administrative Services Division, Alberta Municipal Affairs. His term expires April 1, 1991.

C. J. Roth

Born in Alberta, and a graduate of the University of Alberta, Mr. Roth worked for the Alberta Agriculture Department as a District Agriculturalist and Regional Farm Economist. He then joined the Canadian Imperial Bank of Commerce. On returning to the Alberta Government, he held senior posts with the Department of Transportation. He is currently Deputy Minister, Planning and Services, Alberta Economic Development. His term on the Board expires on April 1, 1988.

Responsibilities and Program Delivery

The Board's objects are to provide an avenue for redress of grievances against decisions by the Minister with respect to the administration of the pension plan, and to provide advice on all aspects of the pension plan to the Minister.

A support staff provides services to this Board and to the Boards of the five other government administered pension plans. Pension Appeals Officers provide assistance to persons preparing appeals.

Board members, except for the Chairman, serve on a part-time basis and do not receive remuneration for service on the Board. The Chairman also serves as chairman of the boards of the five other government administered pension plans.

To assist the Board in its advisory role, employees, employers, and interested groups are encouraged to express their views and concerns on policy issues to the Chairman. Where appropriate, presentations on an issue may be made to the Board as a whole.

The Board met six times in the period under review. Board minutes are recorded but are not made public.

Applications and Appeals

Provisions in the Act

(i) Applications to Extend Time Limits, etc.

Where a person fails to meet a time limit under the Plan, and the failure affects his or her benefit entitlement, the Board may, on application to it, extend the time limit if satisfied that the failure results from circumstances that import no material fault on the part of that person.

Under certain conditions, when a benefit payment has commenced and a benefit choice would ordinarily be irrevocable, application may be made to the Board to change the benefit choice.

(ii) Appeals

A party aggrieved by a decision of the Minister in relation to participation, contributions, pensionable service, or benefits may ordinarily appeal against that decision to the Board.

A party wishing to appeal must serve the Chairman with a notice of appeal within 30 days of being notified in writing of the decision, or within such longer period as the Board may allow.

The Board may serve interested parties with the notice of appeal.

The Board may confirm, vacate or vary the decision appealed against.

The Board shall serve the parties to the appeal and interested parties with a copy of its decision, including reasons.

A party aggrieved by a decision of the Board may, within 30 days, appeal to the Court of Queen's Bench on a question of law or jurisdiction.

Provisions in Reciprocal Agreements

The Plan has entered into reciprocal agreements with other public pension plans whereby employees can transfer contributions and corresponding pensionable service between plans. The following time limits generally apply; that there not be a break in service between employers of more than 3 months, and that application for transfer must be made within one year of commencing employment with the new employer.

Authority to extend these time limits is provided within the agreement to the "importing board". Under the transitional provisions, the subsisting reciprocal agreements entered into under the former Act are valid according to their terms until rescinded or varied by the Minister.

The former Board has generally considered extensions to the 3 month time limit on breaks in service in cases where illness or education occurred in the break. Extension of the one year time limit for application for transfer is considered where there is no proof that the individual knew of the deadline.

The current Board considers applications for extensions of time limits on the basis of "inherited authority".

Procedure

A Notice of Appeal form, prescribed by the Minister, is normally provided with adverse administrative decisions. This form must be completed and submitted in filing an appeal and may also be used for applications for time limit extensions.

The brochure "Appeal Process - Guidelines for Members of Alberta Pension Plans" was developed by the Board and is available to a party preparing an appeal. Limited assistance to appellants is available from the Chairman's office. The individual may seek advice on what facts should be gathered and how they should be presented.

In November 1987, the Board adopted the procedure of notifying the employer of the appellant or applicant upon receipt of the Notice of Appeal.

Also in November 1987, the Board delegated its authority to the Chairman, to identify persons who may be interested in the appeal and to give directions as to the persons to be served with the Notice of Appeal. However, a decision of the Chairman to refuse to allow a person to attend a hearing is to be referred to the Board for final decision.

At its November 1987 meeting, the Board resolved that at the Chairman's discretion, the written submission provided by the appellant or applicant must be statutorily declared prior to the meeting.

Though hearings are conducted in an informal manner, the Board adheres to the rules of natural justice.

The parties to the appeal are normally advised of the Board's decision within 2 weeks of the hearing.

A rehearing may be held at the discretion of the Chairman, if additional information or evidence is available.

The Board has authorized the Chairman to reimburse appellants and applicants appearing before the Board with reasonable travel and subsistence expenses. This ensures that each appellant and applicant has the opportunity to appear and present his case irrespective of his place of residence.

Applications and Appeals Decided

During the period under review, the Board decided on 10 appeals and applications. This compares to 23 applications and appeals decided by the Board in the previous fourteen month period; a number of which were filed prior to November 1, 1985 and heard by the Board in its capacity under the former Act.

A summary of cases decided is as follows:

Public Service Management Pension Plan Board
January 1, 1987 - December 31, 1987

Category	Number	% of Total	% Granted or Varied
Time Limit Extensions (Section 10)	1	10	100
Reciprocal Transfer	1	10	100
Appeals (Section 35)	8	80	75
Total	10	100	80

Parties aggrieved by a decision of the Board under Section 35 of the Act may appeal to the Court of Queen's Bench within 30 days on a question of law or jurisdiction. No such appeals were made in the period under review.

Selected Case Summaries

Summaries of selected cases decided by the Board in the period under review are provided as follows:

As well as illustrating the nature of applications and appeals heard by the Board, the summaries may provide some assistance to participants in developing their appeals, and may help employers to identify areas in which they can improve communications and administrative procedures.

CASE SUMMARY 1

M87:08:04
Appeal for Private Sector Employment to be Recognized as Managerial for the Purpose of Establishing Prior Service

MINISTER'S DECISION

Service which may be established as prior service is prescribed by regulations to include "a period when an employee is or was engaged to work for a body in the private sector approved by the Minister in a capacity recognized by the Minister as managerial".

In response to a participant's request to purchase a period of private sector service, Payroll and Pensions forwarded information on the nature and responsibilities of the previous employment, as provided by the participant and the former employer, to the Personnel Administration Office. P.A.O.'s assessment was that the position would have been classified lower than Managent level in the Alberta public service. On this basis, the request to purchase the private sector service was denied.

APPEAL

The participant appealed the Minister's decision as he considered his period of private sector service to be at a management level. He presented information on his responsibilities and benefits during the period, and on the organizational structure.

BOARD'S DECISION

The Board was convinced that the appellant's private sector employment over the period was managerial in nature. Therefore, the appeal was granted.

CASE SUMMARY 2

M87:09:06
Application to Extend a Time Limit for Payment of a Contributions Deficiency Arising Under a Reciprocal Agreement

MINISTER'S DECISION

In 1980 a non-academic university staff member terminated under the Public Service Pension Plan and commenced with a government department under the Public Service Management Pension Plan. He applied to transfer pension credits under the reciprocal agreement.

The terms of the reciprocal agreement provide that any deficiency in contributions may be paid "within the time period as determined by the importing Board". In this case, a deficiency existed because of the higher statutory contribution rate under the Public Service Management Pension Plan.

As the participant did not arrange payment of the $10,000 deficiency in contributions within the 90 day time limit established by pensions administration, his pensionable service was prorated from 14 years to 7 years.

In 1987 the participant applied to purchase as prior service the 7 years of service which had not been transferred. The cost quoted was approximately $80,000.

APPLICATION

The participant was aggrieved by the Minister's decision to charge $80,000 for the 7 years' service, and appealed to obtain credit for the service by payment of the $10,000 deficiency at time of reciprocal transfer, plus accrued interest.

His basis of appeal was as follows:

(i) When hired by the government department, he assumed that his pension would be transferred without penalty. He considered the deficiency in pension would be resolved between the department and pensions administration.

(ii) The letter advising him of the deficiency stated that the deficiency would increase at 4% interest after the transfer date. It also stated, "To avoid recalculation of the service at a higher rate, payment must be made in full or a payroll assignment put into effect within 90 days of the date of this letter." As the "recalculation of service" was not defined, he assumed that he had 90 days to arrange payment to avoid a 4% per annum interest calculation. He felt that the dire consequences of not arranging payment within the time limit should have been outlined.

BOARD'S DECISION

The Board treated the request as an application for time limit extension under Section 10 of the Act. The Board was satisfied that the applicant was not materially at fault in failing to meet the time limit, therefore extended the time limit to permit payment of the $10,000 deficiency plus accrued interest. Full credit of the 14 years of service will be obtained upon payment of the deficiency.

Advisory Function

Provisions

The Act provides that the Board may advise the Minister respecting any matters relating to the Plan, including

(a) the adequacy of contributions to meet benefits;
(b) adjustments to pensions for the purpose of maintaining approximate parity with the cost of living;
(c) rates of interest for the purpose of the plan;
(d) benefits;
(e) reciprocal agreements;
(f) recognition of prior service;
(g) eligibility and participation in the plan, and

Board's Recommendations

The Minister's policy and funding review of the government administered pension plans continued through 1987. During the year, the Public Service Management Pension Plan Board made the following recommendations to aid the Minister.

Recognition and Cost of Prior Service

After reviewing the eligibility and costing basis for prior service, the Board made recommendations to the Minister in March 1987. The major recommendations were as follows:

(i) that certain types of service recognized under the plan become ineligible for purchase after a transitional period. It was specifically recommended that service with an out-of-province public body which is currently eligible, become ineligible for purchase as prior service;

(ii) that the cost of reinstating service for which a refund was previously received be based on current salary;

(iii) that portability between Alberta public plans be reviewed before changes are made to recognition of contributory prior service under another Alberta Plan;

(iv) that commuted value amounts transferable under pension reform legislation be held in the individual's RRSP rather than being permitted into the plan;

(v) that on inclusion of a new employer into the plan, the cost of prior service of the employees be identified. It is recommended that prior service with the employer before plan entry be eligible under the plan on a fiscally responsible basis; and

(vi) that the minimum monthly prior service payment be increased, prompt application be encouraged and a market amortization rate of interest apply; and

(vii) that the transitional period for changes be two years.

In his response, the Minister agreed that there appears to be a need to reduce the types of eligible prior service and to have the method for costing prior service more adequately reflect the true cost of the service being recognized.

Division of Pension Benefits on Marriage Breakdown

In June 1987 the Board, together with the Boards of three other government administered pension plans, made recommendations for making division of pension benefits on marriage breakdown under the plans easier and less costly. The recommendations were compatible with the proposals made by the Institute of Law Research and Reform.

Pension Reform

Pension reform legislation came into effect January 1, 1987 for Alberta private pension plans, and for federally regulated plans.

The Board reviewed the Public Service Management Pension Plan in light of pension reform requirements. Its recommendations made in November 1987 were as follows:

Vesting:

For part time employment; vesting of the accrued pension, eligibility for retirement and eligibility for pre-retirement death benefits should be based on years of participation rather than pensionable service.

Vesting should occur at normal pensionable age (age 65) even if the service requirement has not been met.

Locking-in:

Pension benefits should be locked in upon vesting.

Portability and Minimum Employer Cost Rule:

On termination, transfer of the value of the vested pension should be permitted to a pension plan of a subsequent employer, a locked-in RRSP, or an insurance company to purchase a life annuity. The basis prescribed for private employer pension plans should be used for calculation of the transfer value of the vested pension.

The minimum employer cost rule should apply retroactively to all current service.

Size of Board

The Board recommended to the Minister that it be expanded from five to seven members, with one member appointed from a non-participant group. This expansion would help ensure quorum, and increase the effectiveness of the Board in its advisory role.

Cost of Living Adjustments to Pensions

Currently cost of living adjustments (COLA) to pensions and deferred pensions are granted on an ad hoc basis by the government. In December 1987 the Board recommended that COLA of 3.3% be granted effective January 1, 1988. The recommended adjustment was equal to approximately 75% of inflation. The actual adjustment was 2.5%.

Appendix A
Excerpts from the Act

The following excerpts of the Public Service Management Pension Plan Act define the make-up and responsibilities of the Public Service Management Pension Plan Board.

Establishment, composition, term of office, etc.

5 (1) There is hereby established a board known as the Public Service Management Pension Plan Board.

(2) The Board shall consist of not fewer than 5 persons appointed members of the Board by the Lieutenant Governor in Council.

(3) The Lieutenant Governor in Council shall appoint 1 of the members of the Board from among participants.

(4) A member of the board holds office for the term fixed in relation to him by the Lieutenant Governor in Council.

(5) The Minister may prescribe the remuneration and expenses to be paid to members of the Board.

(6) The Board may make rules respecting the calling of and the conduct of business at its meeting.

Chairman and Vice -Chairman

6 (1) The Lieutenant Governor in Council shall designate one of the members of the Board to be the chairman and another member to be the vice-chairman of the Board.

(2) The vice-chairman shall act as chairman when the office of chairman is vacant and when the chairman is absent or unable to act.

Support Services

7 The Minister shall provide such supplies, services and accommodation as he considers necessary to enable the Board to fulfil its objects.

Objects of the Board

8 The objects of the Board are

(a) to conduct the hearing of appeals under Part 6; [Appeals]

(b) to provide advice to the Minister under section 9;

(c) where appropriate, to extend time limits and treat benefit choices as revoked under section 10;

(d) to exercise and perform any other powers and duties assigned to it by this Act and the regulations;

(e) to perform any other duties relating to the Plan that are assigned to it by the Minister.

Advisory functions of the Board

9 The Board may advise the Minister respecting any matters relating to the Plan, including

(a) the adequacy of contributions to meet benefits,

(b) adjustments to pensions under section 27,

(c) rates of interest for the purposes of the Plan,

(d) benefits,

(e) reciprocal agreements,
(f) recognition of prior service,
(g) eligibility and participation in the Plan, and
(h) the actuarial tables prescribed or to be prescribed by the Minister.

Board's power to extend time limits, etc.

10 (1) Where

(a) a person fails to meet a time limit under the Plan,

(b) the failure will or could result in a person's obtaining different benefits than those he would have obtained had the time limit been met, and

(c) the Board is satisfied that the failure results from circumstances that import no material fault on the part of that person,

the Board may, on application to it, extend the time limit.

(2) Where

(a) the circumstances set out in subsection (1)(a), (b) and (c) apply,

(b) the benefit has been received or has commenced to be paid, and

(c) the Board is satisfied that a choice, including a deemed choice, that would otherwise be irrevocable under section 40(2) could materially prejudice the best interests of the recipient or his dependants,

the Board may, on application to it, treat that choice as revoked, extend the time limit for making the choice and order any consequential adjustments in the benefits.

(3) Where

(a) a benefit choice has been made, and

(b) the Board is satisfied that

(i) the choice communicated to the Minister was not that which the person making the choice actually intended, and

(ii) the application mentioned in this section does not result from a change in a person's circumstances affecting the choice,

the Board may, on application made to it within 3 months from the date when the benefit was received or commenced to be paid, treat the choice as revoked, substitute for it the choice that, in the Board's opinion, the person originally intended to make and order any consequential adjustments in the benefits.

Appeal to the Board

35(1) A party aggrieved by a decision of the Minister under or in relation to Parts 2 to 5 [Participation, Contributions, Pensionable Service, Benefits] or the prescribed provisions of the regulations, other than a decision under section 32 [i.e. the entering into and terms of reciprocal agreements] or one that could be the subject matter of an application under section 10, may appeal against that decision to the Board.

(2) A party wishing to appeal to the Board under this section must serve the chairman of the Board with a notice of appeal in the form prescribed by the Minister within 30 days of being notified in writing of the decision appealed against or within such longer period as the Board may, on application, allow.

(3) The notice of appeal must specify the decision appealed against and the grounds of appeal.

(4) The Board may identify persons who may be interested in the appeal and may give directions as to the persons to be served with the notice of appeal, whether or not they are parties.

(5) For the purpose of conducting an appeal under this section, the Board

(a) has all of the duties, powers, privileges and immunities given to a commissioner appointed under the Public Inquiries Act by sections 3, 4, 7 and 9 of that Act, and

(b) shall be deemed to be a person for the purposes of section 1(a) of the Administrative Procedures Act.

(6) The Board may confirm, vacate or vary the decision appealed against.

(7) The Board shall serve the appellant and persons who received a notice of appeal with a copy of its decision, including the reasons for the decision.

Appeal to Court of Queen's Bench

36 (1) A party aggrieved by a decision of the Board under section 34 may, within 30 days of the date of service of the Board's decision on him or such longer period as the Court may allow, appeal to the Court of Queen's Bench on a question of law or jurisdiction.

(2) The procedure in an appeal to the Court of Queen's Bench shall be the same as that provided in the Alberta Rules of Court for applications by originating notice.

(3) The Court of Queen's Bench, on hearing the appeal, may confirm, vacate or vary the decision of the Board or make any order it considers just.

Appendix B
Overview of the Plan

Plan Provisions

The terms of the plan are as specified in the Public Service Management Pension Plan Act. The Plan is a contributory defined benefit plan with payment of all benefits guaranteed by the Government of Alberta. Employees are required to make current service contributions at 5% of salary. Employers must contribute an amount equal to 9% of each participant's salary.

Pension benefits are based on two per cent of the highest average pensionable earnings for five consecutive years times the number of years of pensionable service. The normal form of a pension is for the life of the member. If the pensioner has a spouse, the benefit payable to a surviving spouse is 3/4 of the pension that was payable to a pensioner. Optional forms of pension on an actuarial equivalent basis are available subject to the "spousal protection" provisions. Cost of living adjustments (COLA) to pensions may be granted on an ad hoc basis by the Government.

Participants may retire at any time after age 55 without reduction in the amount of pension if five years of pensionable service has been accumulated. Normal pensionable age is 65 years, however there is no mandatory retirement age.

The Plan also makes provision for those members who die prior to retirement and have accumulated at least five years of pensionable service. In such cases the surviving spouse is entitled to either a spousal pension or a lump sum benefit. The spousal pension is equal to the survivor benefit of a non-reduced joint life pension. A beneficiary other than a spouse must accept a lump sum benefit.

Membership Statistics

At March 31, 1987 there were 13 employers participating in the Plan, 4,851 active contributors, 1,247 pensioners, and 392 former participants with funds on deposit. The average pension in payment was $1,841 per month to a former participant and $1,056 per month to a surviving spouse.

Pension Fund

The Pension Fund was established in 1981 by a transfer of $1,100 million from the General Revenue Fund. The Fund will help meet the costs of pension benefits being earned under the six plans administered and guaranteed by the province.

At March 31, 1987, the Pension Fund had assets of $3,502 million comprising a diversified portfolio of government and corporate bonds,money market securities, mortgages and equities.

For all plans in 1986-87, the contributions made by employers and employees exceeded the benefits paid by $138 million. In addition, the Fund earned $349 million in income, resulting in a net increase in fund equity of $487 million.

For the Public Service Management Pension Plan, 1986-87 contributions of $33 million compared to disbursements of $28 million for a net transfer to the Fund of $5 million.

Actuarial Valuation

Independent actuarial valuations of the six government administered pension plans were conducted as at March 31, 1985.

The estimated accrued liabilities of all six plans was $6,443 million. These liabilities compare to Pension Fund assets of $2,570 million leaving an unfunded liability of $3,873 million as at March 31, 1985. The estimated accrued liability attributable to the Public Service Management Pension Plan was $905 million as at March 31, 1985.

The normal actuarial cost of the Public Service Management Pension Plan as a percentage of payroll was 22.3% using the attained age actuarial cost method. Using the unit credit actuarial cost method, the cost was 20.9% of payroll. These costs based on the March 31, 1985 actuarial valuation compare to combined employee and employer statutory contributions of approximately 14% of salaries.

The valuations assume ad hoc COLA will be granted annually equal to 75% of inflation. Costs associated with provision of COLA account for approximately 30% of the cost of the plans.